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¶1. (SBU) Summary: Morocco's weak showing in the newly-published competitivity index of the World Economic Forum has again highlighted an issue that has sparked extensive public comment and debate in recent months, particularly in the context of the failure of Moroccan exports to become a locomotive for economic growth. The Finance Ministry's respected Division of Studies and Planning published a detailed assessment of Morocco's competitive shortcomings in February, and spirited exchanges surrounded the topic at the June 12 annual meeting of the Moroccan exporters' association. Key factors identified by both public sector experts and businesses themselves include the overvalued Moroccan dirham, a shortage of skilled labor, overconcentration by business on a limited number of primarily low value-added sectors, expensive logistics, and a fiscal regime that falls far short of regional rivals. The impact is clear: Morocco ranked 72d in the WEF index, far behind regional leader Tunisia (in 29th place), and export growth from 1995-2006 averaged only five percent annually, so that the export coverage rate fell from 65 percent to 54 percent over the period. End Summary.

¶2. (U) While in this pre-electoral period, the GOM typically focuses its public comments on the reforms it has undertaken over the last five years, senior GOM officials are forthright in admitting that Morocco's export sector is not one where they have had much success. In his remarks opening the June 12 National Exporters' Meeting in Skhirat, Prime Minister Jettou highlighted a number of positive developments in the export sector, including growth in electronics exports (up to 15 percent of Morocco's total exports in 2006) and the recovery of the textile-apparel sector in 2006 from its 2005 downturn. He conceded, however, that "Morocco's export performance had "fallen short" of the government's ambitions. He argued that much more must be done and pressed for businesses themselves to take action to diversify Morocco's exports, particularly into high value-added sectors, a trend he argued the government's industrial policy (the "Plan Emergence") will foster. He also urged business to update its management structures, increase its expenditure on research and development, and engage in more dynamic commercial promotion.

¶3. (SBU) For their part, our business interlocutors, like business participants at the assembly, prefer to focus on the

range of constraints they perceive in government policy. Skhirat participants cited Morocco's fiscal regime, with a company tax rate 75 percent higher than regional leader Tunisia; a lack of trained workers as a result of shortcomings in the education system; continuing weaknesses in Morocco's logistical base (despite recent improvements); and Morocco's overvalued exchange rate. In a recent meeting in Casablanca, a senior executive with the General Confederation of Enterprises of Morocco (CGEM) echoed these themes, while also highlighting shortcomings in Morocco's judiciary and the continued inflexibility of Morocco's labor market, despite implementation of a new labor code in 2004. He and others, however, also concede the shortcomings identified by Jettou, attributing the failure to aggressively exploit market opportunities in part to language and cultural barriers.

¶4. (U) Not surprisingly, all these topics also figured in the 2007 WEF index. Surveyed executives cited access to financing, tax rates and regulations, corruption, infrastructure and workforce issues as their major concern. Morocco's relatively restrictive foreign currency regulations were also cited by some respondents, as was inefficiency of the government bureaucracy and restrictive labor regulations. In a sign of the stability of Morocco's political and economic framework, however, only a handful of respondents cited inflation, policy/government instability, and crime and theft as concerns. Overall, Morocco was ranked in 72nd place in the survey, well behind regional leader Tunisia (in 29th place), behind Egypt (65th) and barely ahead of Algeria (76th).

¶5. (SBU) The most comprehensive recent analytical examination

of these competitive issues comes from the respected Studies and Planning Division of the Finance Ministry, which published a stark report in February detailing Morocco's competitive shortcomings. It highlighted the continuing challenge through a range of negative statistics-- a steadily increasing trade deficit from 1994-2005, a decline in the import coverage ratio to just above 50 percent, the failure of exports to contribute more than 1.2 percent on average to annual economic growth (half the rate in Turkey and Tunisia and a third that of Romania), and a decline in Morocco's share in the world market, despite conclusion of free trade agreements with Turkey, the United States and others. The only bright spot in an otherwise somber picture was Morocco's success in increasing its competitivity in exporting electronic components and information technology.

¶6. (U) The analysis of Ministry experts confirms the issues cited by businessmen at Skhirat and in our own meetings regarding the key internal constraints facing Moroccan companies. Morocco, it shows, is more expensive than its rivals in areas ranging from labor costs to the cost of logistics. Labor costs, the Ministry argues, are increased not just by inflexibilities resulting from the labor code, but by the lack of education of most workers, which limits their productivity. It points out that fewer workers have completed secondary school in Morocco than in any of its emerging market rivals, while only 20 percent of Moroccan companies provide training to their workers. As a result, Moroccan productivity has slipped in recent years. This, coupled with appreciation of the dirham against the dollar over the 1994-2005 study period, greatly worsened Morocco's position, particularly in comparison to Asian rivals which link their currency to the dollar. The competitive impact was only cushioned by the dirham's slight depreciation against the Euro, given the fact that Europe absorbs two-thirds of Morocco's exports. Even there, however, Morocco's market position has stagnated, with exports to France falling short of those of Tunisia.

¶7. (U) Logistics is another key impediment highlighted by the Finance Ministry. It estimates that transport costs

constitute 20 percent of gross domestic product in Morocco, versus 10-16 percent in the EU and 15-17 percent in other emerging economies. The cost of shipping a container from Agadir to France equals that of shipping a container from Istanbul to France, while the cost of crossing the Straits of Gibraltar is two to three time the cost of other similar crossings. These issues were the focus of a recent meeting between Transport Minister Ghellab and the British Chamber of Commerce in Casablanca, at which textile exporters complained that transport times to Europe are twice what they need to be, with concomitant costs. Participants pressed for the government to "reconsider" its international transportation policy and work to reduce these costs.

¶8. (U) The Finance report also documents the shortcomings of Moroccan companies. Few invest in research and development (total R and D spending is negligible, as only 5 percent of companies invest in this area, far less than their competitors in other emerging markets), and companies are dependent on a limited number of products and markets. Thus phosphates and textiles account for 50 percent of Moroccan exports, while France and Spain alone represent 50 percent of Morocco's international market. While some successes have been registered with high tech products, these still only account for 10 percent of Moroccan exports, while low-tech and agricultural exports still account for over two-thirds. Another telling statistic cited in the report is that the world's most dynamic 10, 50 and 100 products only constitute 1.3, 1.4 and 1.7 percent (respectively) of Moroccan exports, whereas they form 25, 52, and 70 percent of trade worldwide.

¶9. (SBU) Comment: Morocco is working on many of these issues, through both its ambitious effort to improve the country's logistical base and encourage investment in key industrial sectors. These measures have clearly not been as successful as the government would have wished in improving Morocco's overall competitiveness, while equally critical issues regarding the country's tax regime and legal system remain to be addressed. End Comment.

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